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From: douglas denoff <dd@fibernettel.com>
To: FCCMAIL.SMTPNLM("slamming@comments.fcc.gov")
Date: 8/7/97 4:21pm
Subject: SLAMMING

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AUG - 7 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

I am the CEO of Fibernet Inc., an interexchange carrier (CIC 0350).

As a reseller, we have serious concerns about the actions of underlying carriers, including Frontier Corp. and their dealings with us and with the public. Enclosed are four articles which illustrate our concern, which centers on the underlying carrier using the innocent public as a bargaining tool. They use the threat of disconnection of innocent third parties to coerce resellers into acquiescing to unreasonable demands. The California PUC has already expressed their concern.

Subsequent testimony by Frontier executives has proven that Frontier's acts with regard to us (first Forbes article) had nothing to do with payment issues. Further, Frontier slammed all of our customers and billed them directly without prior consent.

I would like to meet with the appropriate commissioner either by phone or in person to discuss this critical issue.

Thank you for your time

From Telecommunications Reports Daily - July 10, 1997

REP. FRANKS AIMS TO GET EVEN AFTER HOME OFFICE IS 'SLAMMED'

Rep. Robert Franks (R., NJ) has introduced legislation HR 2112 to double penalties for telecom companies found guilty of 'slamming' - the practice of switching a customer's long distance service provider without authorization. Rep. Franks has a personal stake in the legislations, which also would require telecom companies to notify the FCC of each complaint they receive about slamming. He authored the bill after discovering late in May that his district office in Union NJ had ben slammed.

His staff identified the slamming culprit as Frontier Telecommunications Inc, the long distance division of Frontier Crop. Adding insult to injury, according to Rep Franks' staff members, Frontier's rates proved to be 72% higher than the charges of the offices's original carrier, MCI. The swithc was uncovered by the House of Representatives Office of Telephone Services, which notified Rep. Franks. In addition to submitting legislation, Rep Franks asked the House of Representative's acting General Counsel, Geraldine R. Gennet, to file a formal complaint against Frontier. He also contact the New Jersey Attorney General's Division of Consumer Affairs, which is "looking into the matter" a division staffer said.

FORBES Magazine
November 4, 1996 issue, page 346.

In the warfare following deregulation of telephone and electric utilities, some customers are going to get caught in the crossfire.

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Blackout
By John R. Hayes

IN APRIL, with no warning, Frontier Corp., the phone company based in Rochester, NY, cut off all outgoing long distance and incoming 800 calls to hundreds of Los Angeles Businesses. Customers are still seething.

"I*m sure we lost quite a lot of business," says Michael Stadler, chief financial officer of Los Angeles-based S&M Moving Systems, which does employee relocation for Intel and others. "If they can*t get us, they call somebody else."

What had S&M done wrong? Nothing. It was an incidental victim of a billing dispute that began in 1993 between two telephone companies: West Coast Telecommunications, purchased last year by Frontier, and one of its customers, Santa Monica, California-based FiberNet. Claiming that FiberNet was behind on its payments, Frontier pulled the plug on it. FiberNet*s customers were the ultimate losers.

Now headed for court, the dispute between FiberNet and Frontier has caught the attention of the industry and of the California Public Utilities Commission. The question: What obligation, if any, did Frontier have to FiberNet*s customers?

If the business service in question were anything but a traditionally regulated utility, the answer to the question would be "none." S&M, after all, had no contractual relationship with Frontier. The moving company was paying FiberNet to deliver service, and if FiberNet failed to deliver, the beef was with FiberNet.

But public utility commissions do not see themselves as enforcers of contracts. As regulators, they like to think of themselves as guardians of public welfare. Hence the California PUC may step in and dictate to companies like Frontier how they should treat end users such as S&M.

Count on plenty more disputes like this one as telephone and electric companies evolve from regulated utilities into players in a free market. Since telephone deregulation, hundreds of middlemen have sprung up in the long distance market. They buy blocks of unused capacity from companies like AT&T and MCI, then resell them, much like ticket consolidators who buy and sell airline seats. As with travel, so with communications: The discount service you buy is only as reliable as the fellow you bought it from.

Outfits like FiberNet do more than buy and sell. They create customized packages of long distance voice and data communications, along with services like 800 numbers, that they sell under their own names to small businesses. Usually everyone benefits. The long distance companies sell excess capacity, the middlemen earn a profit and businesses still pay less than they would if they bought directly from AT&T.

With revenues of just $10 million, FiberNet is a tiny player in a big industry. Atlantic ACM, a Boston-based consulting firm, estimates that smaller carriers and resold long distance service account for 20% of the $60 billion in domestic long distance revenue. Soon to come: the reselling of local service, now that that market has been opened up to competition.

Frontier says it cut off FiberNet*s customers because FiberNet refused to pay its bills. FiberNet president Douglas Denoff*s answer: Since 1993 he has paid $600,000 of $1 million in disputed charges, with the understanding that Frontier would look into the dispute and make refunds for any mistakes. Denoff says he began holding back payment because Frontier did nothing and the mistakes continued.

"They [Frontier] never said they would cut off all our customers," says Denoff. "It was like pulling the plug out of the wall for a respirator." Denoff also claims that after cutting off his 12 largest customers, Frontier offered to hook them back up if Denoff would drop a lawsuit against Frontier.

Frontier says that it notified FiberNet in advance that its contract would not be renewed and that it is not Frontier*s responsibility to notify end users that a reseller is being cut off.

The California PUC says its only concern is how FiberNet*s 500 customers were treated. At an April meeting, Commissioner Daniel Fessler intoned, "If those two parties, having engaged in this arrangement for their mutual profit, can then use these innocent parties as pawns in order to apply pressure to one another, I believe that the state of California would have failed its citizens."

S&M*s Michael Stadler initially moved his service from FiberNet to Frontier. He then switched from Frontier to MCI. "I hold both companies responsible equally," he says. And he*s not paying his April bills, either - $6,000 to Frontier and $9,000 to FiberNet. Says he: "I*ve been damaged way beyond that."

FORBES - June 2, 1997

Follow-Through

Edited by David Fondiller

Blown Opportunity

SINCE WE RAN an article lauding Ronald Bittner's Frontier Corp. (Apr. 22, 1996), the company's stock has tanked to a recent 17 1/4 from a high of 33 3/8 last May.

Oops! And in a bull market.

Two years ago Frontier embarked on an ambitious $2.3 billionacquisitions program to expand its long distance business. That culminated in the August 1995 merger with $568 million (1994 sales) ALC Communications. In theory the deals made a lot of sense. They vaulted Rochester, N.Y.-based Frontier (formerly Rochester Telephone Corp.) from a small, independent, primarily local phone company to the nation's fifth-largest long distance carrier with $2.6 billion in sales.

With ALC, Frontier got an infusion of long distance know-how from ALC's entrepreneurial management, includingChief Operating Officer William Oberlin and Chief Financial Officer Marvin Moses. But within months, the new team grew frustrated with Bittner and his cronies. The company had enjoyed a monopoly in Rochester dating back to 1920, and a monopoly mentality permeated the place. Oberlin quit in November 1995 and eventually took over another long distance firm, Seattle-based Midcom Communications. Moses and several others soon followed him out the door.

Then last year Bittner, a 34-year company veteran, lost his top customer. Excel Communications (Mar. 24), a reseller of long distance services, accounted for 16%of Frontier's revenues. Excel executives expressed no unhappiness with Frontier, but former company insiders and industry experts say a big reason was deteriorating service. "Excel was not satisfied that Frontier's network was up to its [Excel's] standards," says Rauscher Pierce Refsnes analyst Harry Blount. There reportedly were times when the network would go down and Excel would have to call to bring it to Frontier's attention.

Last November Frontier said profits for 1997 would be down by as much as 9% from estimates. A month later it said revenues from new services like prepaid calling cards were lower than expected.

In April more bad news:First-quarter profit was down 41%, from 39 cents the previous year, and operating margins for long distance had shriveled to 3% from 13%.

Bittner's team has tried to expand Frontier's focus from a traditional base of small and medium-size customers ($500 to $2,000 per month in long distance revenue)to accounts in the $5,000-to-$25,000 per month range. That cost Frontier more staff defections. Going for bigger accounts will be an uphill battle since Frontier now has to compete more directly with industry titans Sprint, MCI and WorldCom.

What of Bittner as the man in charge of this debacle? "Ron has done a masterful job of controlling the board," says a former director, speaking on condition of anonymity. "It appears that no one is willing to take the rudder."

What does Bittner say? "Yes, some of the integration has taken longer than we hoped it would, but at the end of the day we think we'll end up with a first-class, asset-based, customer-based network and be able to produce some very good results."

Shareholders' best hope? A takeover. The chances? "One hundred percent," says Frontier investor Mario Gabelli, who cashed out much of his 8.2% stake in the early 1990s. "It has to have a new team in both owners and management. The world is moving too fast for them."

We were right about the opportunities, but forgot the most basic of all Forbes' tenets: Good management is more important than good prospects.
*D.F.

Short, sweet and oh so cheap

LAST FALL we ridiculed Cognex Corp.'s costly, hokey annual report, made to look like a deck of cards. The chief executive appeared in a tuxedo, dealing cards to management. The text was heavy on gambling lingo. This from a company that makes robotic eyes used by manufacturers. Next time, we advised, keep it short, sweet and*most important*cheap (Nov. 4, 1996).

Waddya know? They took it to heart. Made from drab brown recycled paper, Cognex's 1996 annual features a straightforward letter from the chairman, a full explanation of what the company does and a concise performance report. No expensive color photos and distracting graphics. Right there, in black and white, Chief Executive Robert Shillman boasts that this latest annual report cost shareholders just 21 cents apiece. It cost $4.31 last year.

"I decided to take your article's advice to heart," Shillman wrote us. "Thank you for planting the seed that challenged us to try a whole new direction." He signed it Chairman and Cheapskate.
*Luisa Kroll

TR Daily - January 21, 1997

MCI - WORLDCOM CONTRACT SPAT RESULTS IN NETWORK OUTAGES

A contract dispute between Worldcom Inc. and MCI telecommunications corp. let to disruptions in service to some WorldCom customers last Friday. An MCI spokesman said that a contract under which MCI provides Signalling System 7 callsetup and routing services to WorldCom had expired on Thursday. MCI terminated the SS7 service at about 11 AM January 17 after a court review of the WorldCom requests to extend the contract. The dispute was resolved by the companies and service to WorldCom was reinstated after about two hours, the MCI spokesman said. He said MCI had informed WorldCom three months ago that the expiration of the contract was drawing near and already had granted it "several extensions"

A WorldCom spokesman would not comment on the cause of the network outage last Friday. He also declined to detail its scope, although he acknowledged that it affected WorldCom customers in "a number of LATAS throughout the country." Legal proceedings stemming from the dispute between WorldCom and MCI have been placed under seal by a US District Court Judge in Jackson Miss.

virtually yours,

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Date: Thu, 07 Aug 1997 13:21:30 -0700
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